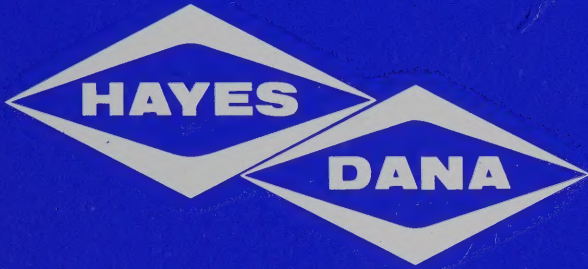


AR14



GATHERING MOMENTUM



1972
REPORT

OUR COVER

. . . symbolizes in simple form the sense of urgency that has persisted in our company since the dawn of the seventies, when we established our goal to become a One Hundred Million Dollar company by the mid seventies.

With that target now within easy reach and the MOMENTUM continuing to build up, we now look with confidence to a goal of more than One Hundred and Fifty Million before the end of the decade.

The following pages carry the formal report of our past year's performance — a brief look at our prospects for the near future and a pictorial review of some of the exciting things our HAYES-DANA people are doing to reach our goals.

annual report 1972

RESULTS IN BRIEF

1972**1971**

NET SALES	64,596,000	51,305,000
NET INCOME	3,352,000	1,721,000
SHAREHOLDERS' EQUITY	25,417,000	23,297,000
WORKING CAPITAL	7,575,000	6,498,000
NEW INVESTMENT IN PLANT AND EQUIPMENT	9,435,000	1,878,000
DEPRECIATION	2,303,000	2,263,000
NET INCOME PER SHARE	1.18	.60
ANNUAL DIVIDEND RATE PER SHARE	.44	.44
EQUITY PER SHARE	8.92	8.18

effect of increasing cash dividends by 5%.

The Directors also declared their intention to investigate the possibility of taking further advantage of recent changes in Canadian Tax legislation which will permit the payment of tax-paid dividends in the future under certain circumstances.

At their recent meeting on September 27, 1972, the directors passed a by-law providing for a proposed subdivision of the company's shares on a two for one basis. At the same time they indicated their intention to declare an initial quarterly dividend of 6 cents per share after the subdivision becomes effective.

OUTLOOK

We are entering our 1973 fiscal year with full schedules in all our product lines. As we have indicated above, our capital program is already under way to provide adequate equipment to meet our production commitments. Our financial position is strong and we are carrying over no deferred expenses.

We look for the present buoyancy in the North American economy to continue and particularly in the industries we serve. On this basis, we expect substantial growth in both sales and earnings over the next year.

Our search for a suitable merger partner is continuing. Several possible situations were investigated in the past year but did not meet our criteria. Our target for the seventies — to exceed One Hundred & Fifty Million dollars in sales — dictates that a major part of our growth must come through acquisition and we are intensifying our efforts to this end.

In the longer term our industry will continue to be confronted with a challenge to maintain its productivity in order to remain competitive in both the North American and

world-wide markets. At HAYES-DANA we will have to face and adapt to constantly changing conditions to meet this challenge.

On the pages that follow you will see some examples of how our HAYES-DANA people are making use of new technology to improve our processes and our products; how we are applying innovation to make our equipment more efficient and safer; and how these factors are combined to increase our productivity.

We give credit to all the people throughout our organization who contributed to our improved performance and who will be responsible for our future progress. We thank our customers and our suppliers for their confidence and their cooperation; and our shareholders for their continuing support.

Respectfully submitted
On behalf of the Board of Directors

G. B. Mitchell, *Chairman of the Board*

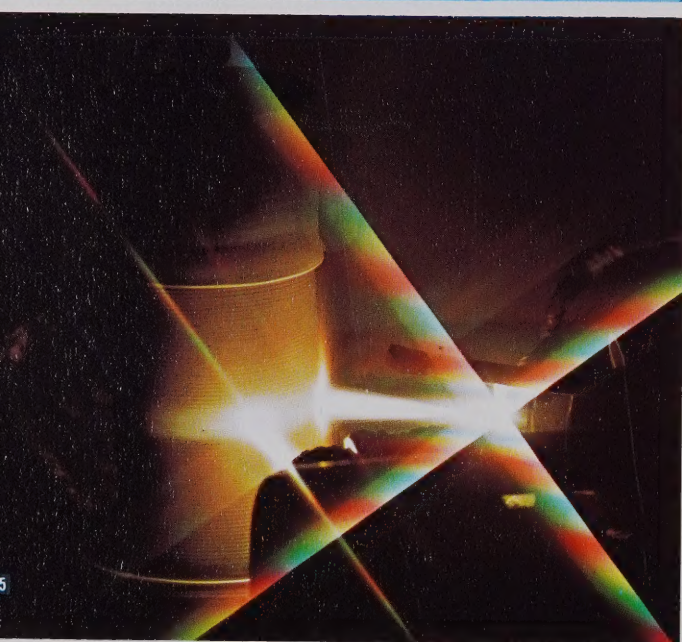
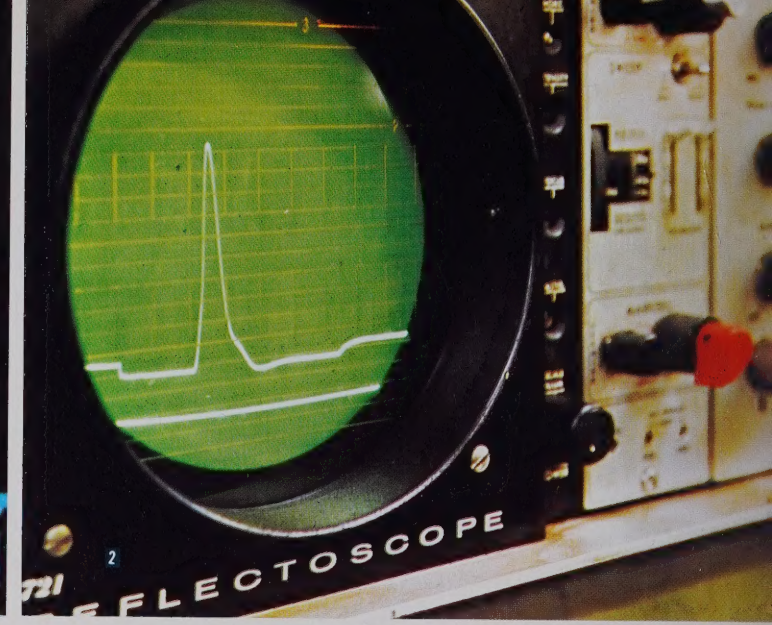
Borge Reimer, *President*

October 16, 1972



Borge Reimer

G. B. Mitchell





people and technology

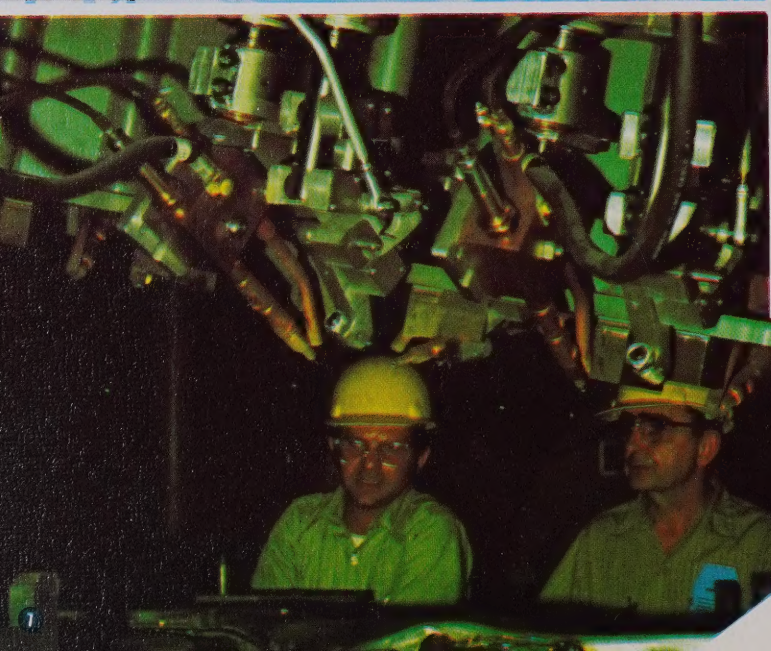
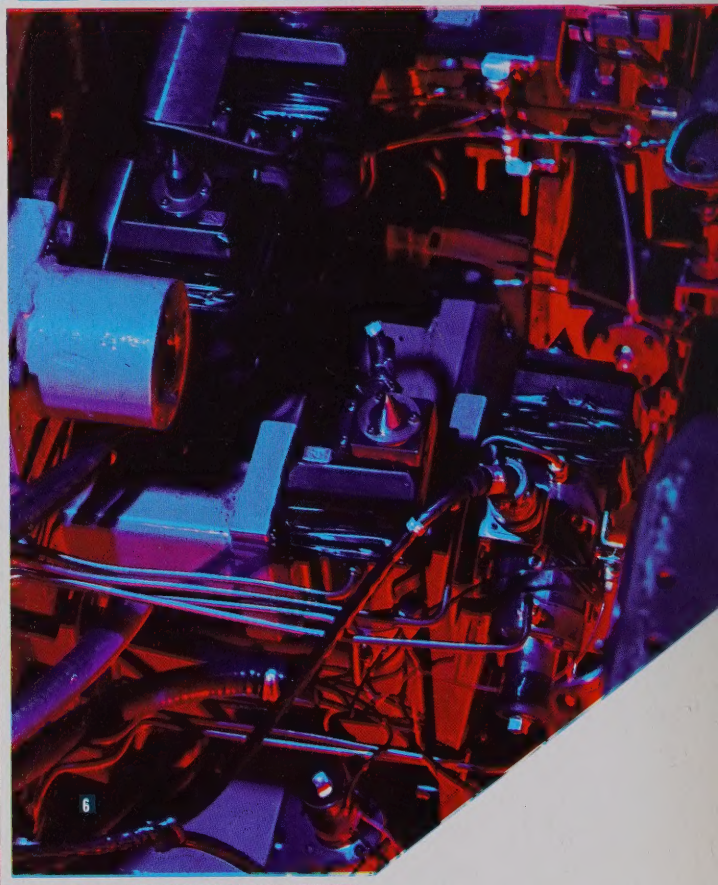
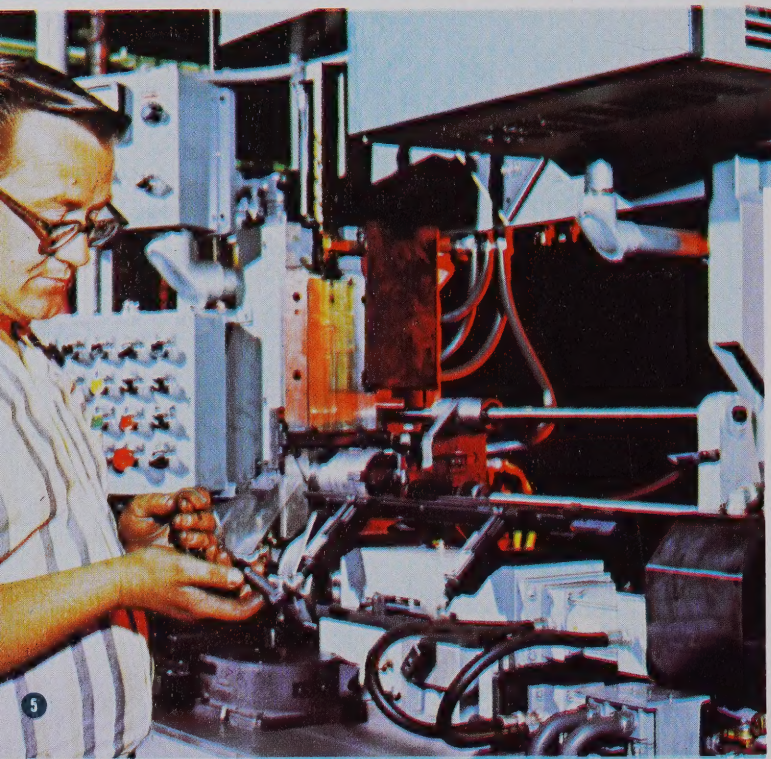
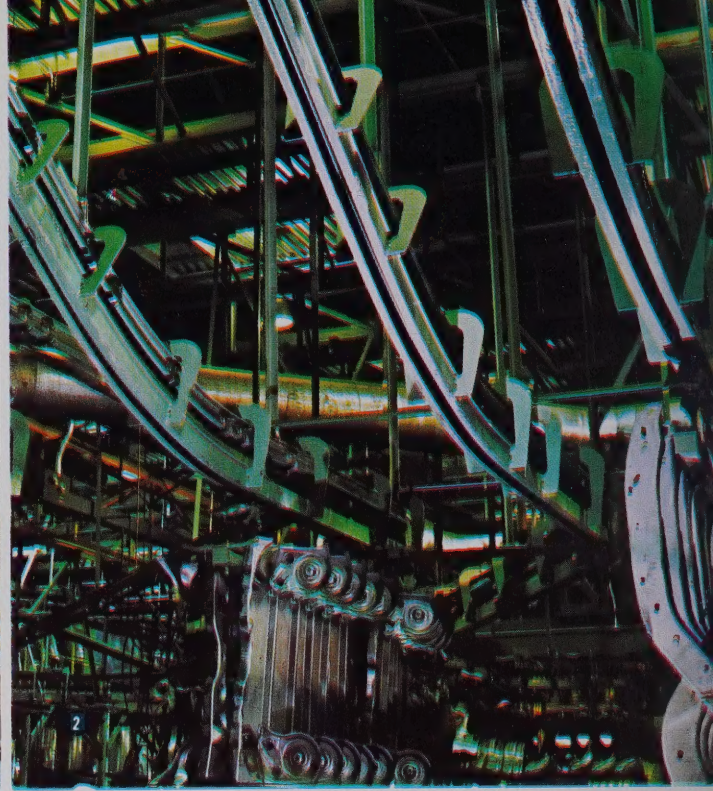
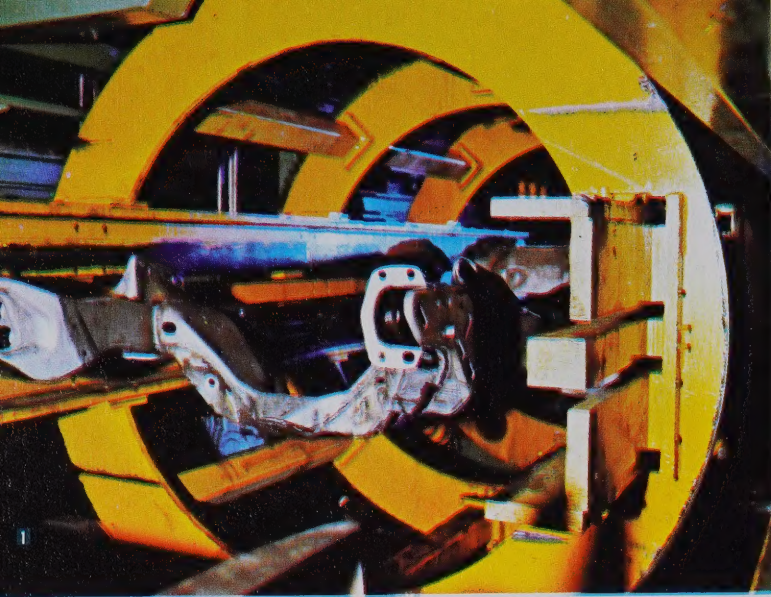
The decade of the seventies offers the potential of being a golden age of productivity improvement brought about by new TECHNOLOGY. The spectacular technological advances of our "space-age" have presented industry with new and exciting opportunities for self-improvement.

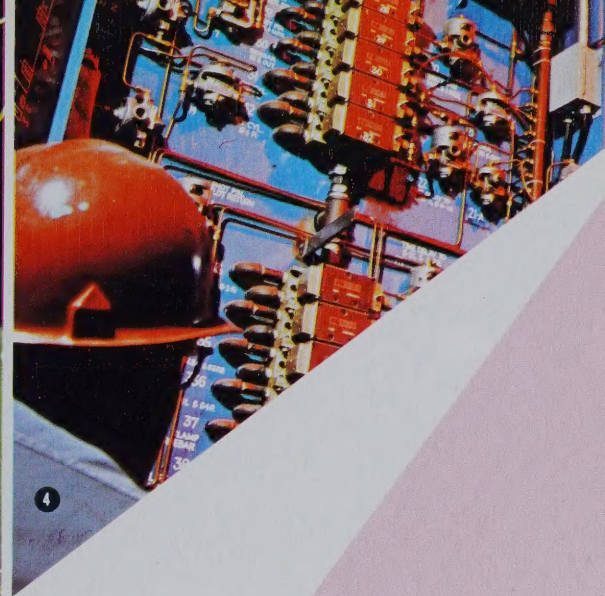
TECHNOLOGY can help improve productivity in many ways — By providing better machinery and equipment with sophisticated but practical automation — Through the development of better methods, and by offering dramatic new ways of doing things — By improved product design to simplify manufacturing processes — By providing new materials that can be fashioned more readily into improved end products.

TECHNOLOGY provides no benefits until it can be harnessed and put to work — by PEOPLE.

At HAYES-DANA we take a positive attitude toward TECHNOLOGY. Our PEOPLE strive to keep abreast of new developments in every field — chemistry, metallurgy, hydraulics, electronics, fluidics, mechanics . . . and to apply this knowledge to improve our products and to make our processes more productive, more satisfying and safer for our workers.

1. Glidecote is applied to reduce friction and greatly extend the life of heavy-duty components.
2. Ultrasonic testing detects hidden flaws in critical parts.
3. Hydraulic presses cold-extrude axle shafts to minimize machining.
4. Extensive research and development is conducted into the application of fluidics to control production processes.
5. Space age technology is used to electronically fuse molybdenum to piston rings to improve wearing characteristics of these precision parts.
6. Dana's Test Track and Research Centre concentrates on the development and testing of drive train components and provides Hayes-Dana with a decided competitive advantage in the growing truck market.
7. Axle shafts are heat-treated by the induction process to produce the required hardness of the bearing surfaces and yet maintain the required flexibility and strength of the shaft.



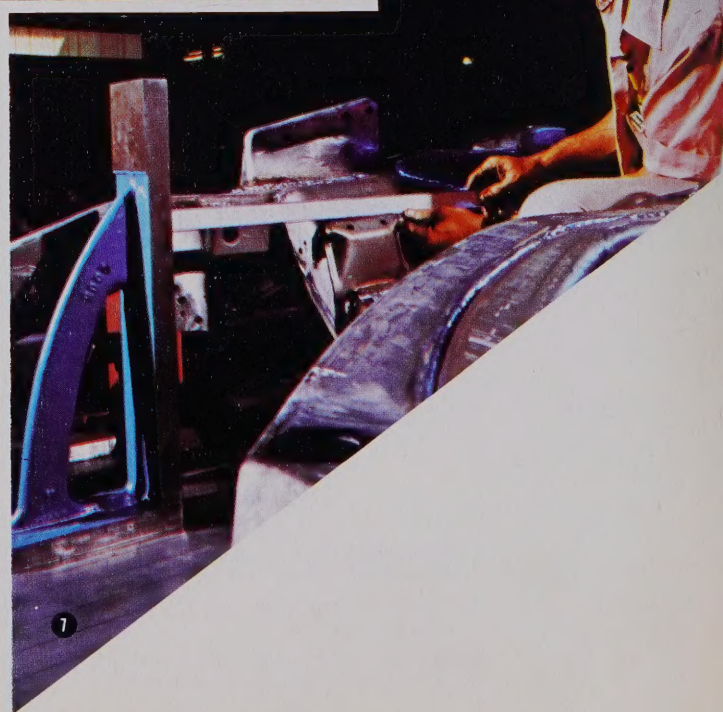
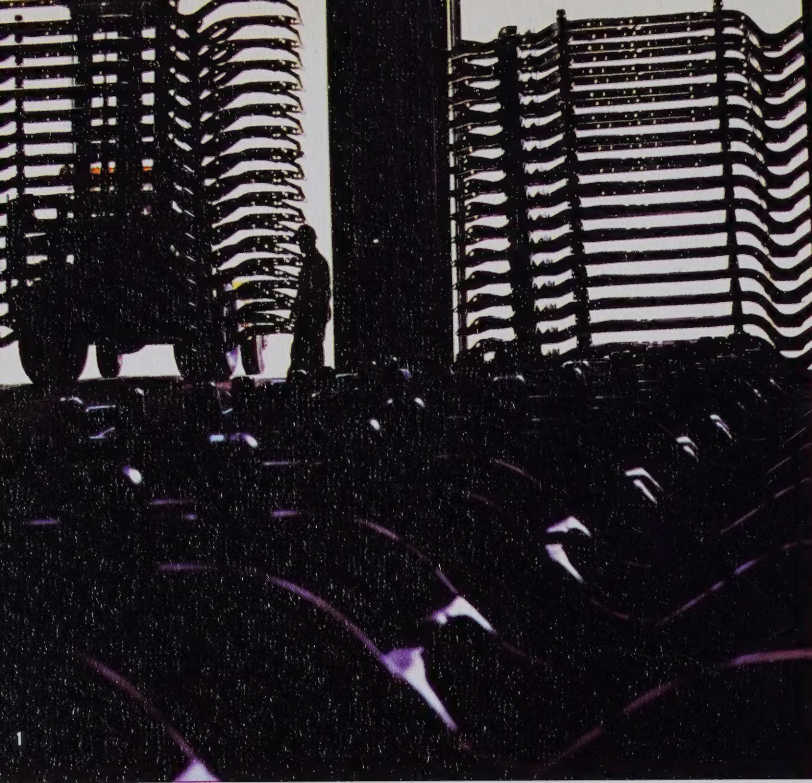


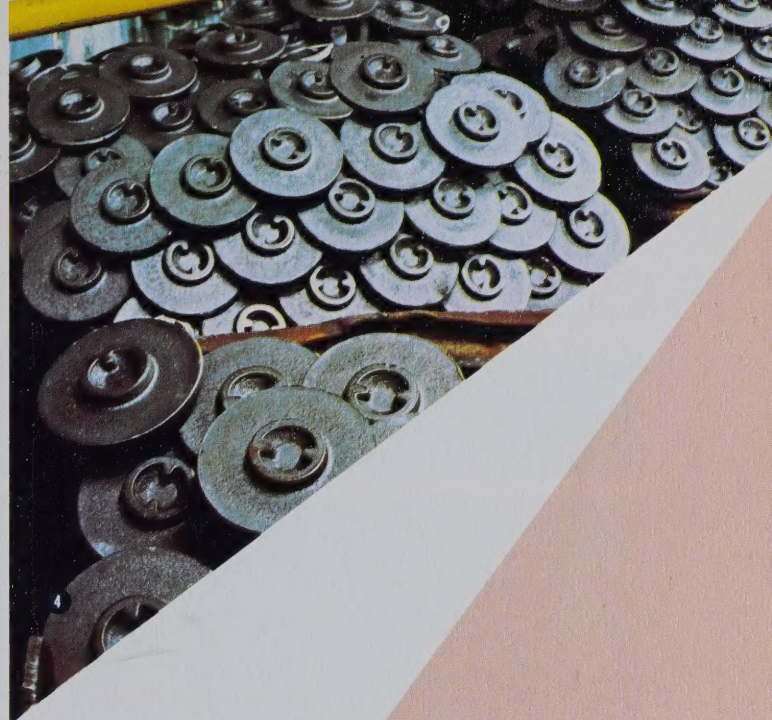
people and innovation

INNOVATION, by providing new ways of harnessing technology, can produce dramatic gains in productivity. INNOVATION can range from simple improvements in existing methods to revolutionary and exciting new processes.

At Hayes-Dana, INNOVATION is not an isolated function assigned to specialists but a broadly-based activity involving all our PEOPLE. We encourage PEOPLE throughout our divisions, in every sphere of activity, to be creative. The resulting steady flow of fresh ideas offers the means to improve our productivity in manufacturing, in warehousing, in marketing, in accounting . . . and helps us provide better products and service to our customers.

1. Mechanical devices eliminate manhandling of heavy assemblies and minimize employee fatigue.
2. Overhead conveyors speed sub-assemblies to main assembly lines.
3. Grinding clutch covers is a simple but important part of remanufacturing clutch assemblies.
4. Fluidic panels control completely automatic welding operations.
5. Multi-purpose machines combine boring, turning and grooving of piston rings - three operations previously done separately.
6. Computerized checking fixtures speed inspection and assure continual control of the quality of completed assemblies.
7. Sophisticated fixtures accurately position and clamp components for automatic welding operations.





people and productivity

Improved PRODUCTIVITY results when creative PEOPLE, through INNOVATION, take advantage of the opportunities offered by modern TECHNOLOGY.

And the untapped potential for increasing PRODUCTIVITY offers the best hope for maintaining the competitive position of our industry in North American and world-wide markets.

At HAYES-DANA our PRODUCTIVITY continues to increase as a result of three basic factors. We have enthusiastic and capable PEOPLE. We expect them to investigate the latest advances in TECHNOLOGY—both techniques and materials. We encourage them to apply INNOVATION to increase the output and efficiency of our equipment, the quality of our products and services — by working smarter.

1. A silhouette of productivity at our expanded Frame Plant.
2. Service parts in increasing quantities flow from our manufacturing plants through regional warehouses to wholesale customers across Canada.
3. Some of the more than one million propeller shafts that will move off our assembly lines this year.
4. From our modern production facilities, more than one

million axle shafts will be shipped to customers in five different countries.

5. Productivity at Hayes-Dana extends into the service area—vehicles of all types are given pre-delivery inspection and service for dealers across Canada.
6. Teamwork is an important element of productivity.
7. Precision inspection and quality control insures the high standard of products manufactured by Hayes-Dana.

HAYES-DANA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS	AUGUST 31 1972	AUGUST 31 1971
CURRENT ASSETS:		
Cash	\$ 157,000	\$ 136,000
Accounts receivable	8,924,000	4,724,000
Inventories, at lower of cost and net realizable value	18,597,000	14,918,000
Prepaid expenses	365,000	125,000
	28,043,000	19,903,000
FIXED ASSETS, at cost:		
Land	524,000	524,000
Buildings	8,788,000	8,120,000
Machinery and equipment	33,426,000	25,583,000
	42,738,000	34,227,000
Less: Accumulated depreciation	15,478,000	13,473,000
	27,260,000	20,754,000
OTHER ASSETS:		
Investment in and advances to 50% owned company, at equity	270,000	207,000
Other investments, at cost	283,000	283,000
Unamortized deferred expenses	—	60,000
	553,000	550,000
APPROVED ON BEHALF OF THE BOARD:		
G. B. MITCHELL, Director	\$55,856,000	\$41,207,000
BORGE REIMER, Director		

LIABILITIES AND SHAREHOLDERS' EQUITY	AUGUST 1972	AUGUST 1971
CURRENT LIABILITIES:		
Bank advances	\$ 8,501,000	\$ 6,203,000
Accounts payable and accrued liabilities	11,011,000	5,500,000
Due to Dana Corporation	143,000	299,000
Income taxes payable	—	105,000
Current portion of long-term debt	500,000	1,000,000
Dividend payable	313,000	298,000
	20,468,000	13,405,000
LONG-TERM DEBT:		
7-3/8% secured debenture (Note 2)	4,000,000	—
DEFERRED INCOME TAXES	5,971,000	4,505,000
SHAREHOLDERS' EQUITY (Notes 3 and 4):		
Capital stock without nominal or par value—		
Authorized - 4,000,000 shares		
Issued - 2,848,614 shares	9,115,000	8,979,000
Retained earnings	16,302,000	14,318,000
	25,417,000	23,297,000
	\$55,856,000	\$41,207,000

HAYES-DANA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF

income and retained earnings

	YEAR ENDED AUGUST 31 1972	YEAR ENDED AUGUST 31 1971
Sales	\$64,596,000	\$51,305,000
Dividends, interest and other income (net)	215,000	136,000
	64,811,000	51,441,000
Costs and expenses (including depreciation of \$2,303,000 in 1972 and \$2,263,000 in 1971):		
Cost of Sales	55,467,000	44,851,000
Selling, general and administrative expenses	3,069,000	2,694,000
Interest on long-term debt	40,000	92,000
Bank interest	513,000	429,000
	59,089,000	48,066,000
Income before income taxes	5,722,000	3,375,000
Income taxes	2,370,000	1,654,000
Net income for the year	3,352,000	1,721,000
Dividends declared (Note 3)	1,368,000	1,194,000
Earnings retained in business	1,984,000	527,000
Retained earnings:		
Beginning of year	14,318,000	13,791,000
End of year	\$16,302,000	\$14,318,000
Before stock split:		
Net income per share	\$1.18	\$.60
Cash dividends paid per share	\$.44	\$.44
After stock split:		
Net income per share	\$.59	\$.30
Cash dividends paid per share	\$.22	\$.22

CONSOLIDATED STATEMENT OF

SOURCE AND USE OF FUNDS

	YEAR ENDED AUGUST 31 1972	YEAR ENDED AUGUST 31 1971
Source of funds:		
Net income	\$ 3,352,000	\$ 1,721,000
Charges not requiring current funds—		
Amortization of deferred expenses	60,000	58,000
Depreciation	2,303,000	2,263,000
Deferred income taxes	1,466,000	—
Funds from operations	7,181,000	4,042,000
Debenture proceeds	4,000,000	—
	11,181,000	4,042,000
Use of funds:		
Additions to plant and equipment (net)	8,809,000	1,818,000
Dividends and special tax paid	1,232,000	1,194,000
Increase in other assets, before amortization of deferred expenses	63,000	124,000
Reduction of long-term debt	—	1,000,000
	10,104,000	4,136,000
Increase (decrease) in working capital	1,077,000	(94,000)
Working capital at beginning of year	6,498,000	6,592,000
Working capital at end of year	\$ 7,575,000	\$ 6,498,000

HAYES-DANA LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 1972

1. Principles of Consolidation:

The consolidated financial statements include the accounts of Hayes-Dana Limited and its subsidiary companies, all of which are wholly-owned.

2. Long-Term Debt:

The Company has arranged for the private placement of a 7-3/8% secured debenture of up to \$8,000,000 of which \$4,500,000 has been received with the balance due in the near future. The Company is required to make semi-annual repayments of \$500,000 in June and December, 1973; \$1,000,000 in June and December 1974 and 1975, and \$1,500,000 in June and December, 1976.

3. Capital Stock:

Capital stock of the Company increased by 135,649 shares as a result of a 5% stock dividend declared June 16, 1972 and paid on July 31, 1972. Retained earnings of \$135,649, representing \$1.00 per share issued, were capitalized with respect to the stock dividend after payment of a special tax of \$24,000. The earnings per share reported for the 1971 fiscal year reflects the stock dividend.

At a meeting of the board of directors on September 27, 1972 the directors resolved, subject to shareholder approval at the annual meeting, to subdivide the shares on a 2 for 1 basis.

4. Stock Options:

The Employees' Stock Option Plan provides for options to be granted to key employees to purchase up to 52,500 shares (before stock split) of the Company's capital stock at a price equal to the market value of the shares at the date granted. At August 31, 1972 there were 30,870 options outstanding at a price of \$10.47 of which 15,750 are held by directors and officers.

5. Remuneration of Directors and Officers:

The Company and its subsidiaries paid \$10,000 to eight directors and \$220,000 to six officers, two of whom are directors.

6. Pension Plans:

During the year the Company made certain improvements to its pension plan retirement benefits and as a result the unfunded past service liability of the Company's pension plans which is being amortized over not more than twenty years is estimated at \$6,000,000 (of which \$4,500,000 represents actuarially computed employees vested benefits). Pension plan expenses for the year amounted to \$882,000 (1971 — \$830,000).

AUDITORS' REPORT

To the Shareholders of Hayes-Dana Limited:

We have examined the consolidated balance sheet of Hayes-Dana Limited and its subsidiaries as at August 31, 1972 and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton,
September 27, 1972

Price Waterhouse & Co.
Chartered Accountants

HAYES-DANA PRODUCTS
ARE DISTRIBUTED TO THE AFTERMARKET
UNDER THE FOLLOWING BRAND NAMES:

Spicer[®]

Victor



PERFECT CIRCLE

ag-master[®]





HAYES-DANA LIMITED

THOROLD, ONTARIO

DRIVE TRAIN DIVISION

ST. CATHARINES – THOROLD

UNIVERSAL JOINTS • AXLE SHAFTS • CLUTCHES
AUTOMOTIVE, AGRICULTURAL & INDUSTRIAL DRIVE SHAFTS

FRAME DIVISION

THOROLD

AUTOMOTIVE FRAMES AND STRUCTURAL COMPONENTS

PERFECT CIRCLE/VICTOR DIVISION

ST. THOMAS

PISTON RINGS • OIL SEALS • GASKETS • PACKINGS

NASCO DIVISION

STONE CREEK

REMANUFACTURED AUTOMOTIVE ELECTRICAL COMPONENTS,
WATER PUMPS, CLUTCHES

SPECIAL SERVICES DIVISION

OSHAWA – OAKVILLE

PRE-DELIVERY SERVICE AND INSTALLATION
OF CUSTOM EQUIPMENT ON NEW VEHICLES